

ANNUAL REPORT 2007

2006.2-2007.1



Management Message

To Our Shareholders



Seiichi Matsumura
Chairman and Chief Executive Officer

杉村 誠一

Akio Okoshi
President and Chief Operating Officer

大越 昭夫

Basic Philosophy

Based on its corporate commitment, “providing the gift of love to all,” the Pigeon Group is dedicated to helping those in need-while pregnant, giving birth, and rearing children, as well as in old age. Our policy is to develop our business by delivering products and services that address the needs of these people. Fulfilling our role as a “lifestyle support company focusing on child rearing,” we are leveraging the Pigeon brand and the quality of our management to build a high corporate profile that is recognized worldwide. This is our medium-term corporate vision.

Management System

Seiichi Matsumura, our former president and COO, was instrumental in entrenching the Pigeon’s presence in the baby and child care sector and laying the groundwork for overseas expansion. In addition, he actively promoted the Corporation’s entry into other fields, notably healthcare services for the elderly and child-rearing support. In his new role as chairman, Mr. Matsumura will continue focusing on overseas business development. Meanwhile, Akio Okoshi, the new president and COO, will concentrate on further solidifying the Corporation’s domestic business infrastructure. In addition, changes will be made to create a management structure where roles, functions, and lines of responsibilities are clearly defined. Under the new system, spearheaded by Mr. Matsumura and Mr. Okoshi, we will target further advancement of the Pigeon Group.

Year in Review

The period under review was the second year of “Global 500”, our second medium-term management plan for the 21st century. Guided by this plan, we took measures to address important management issues and mobilize Groupwide synergies.

A look at the macroeconomic environment reveals that the number of childbirths in calendar 2006 rose more than 30,000 year-on-year, reflecting increased pregnancies among women in their 20s, economic recovery, and other factors. Accordingly, the total fertility rate exceeded 1.3 for the first time in four years. Nevertheless, it is premature to conclude that the increase in childbirths is sustainable, since

second-generation female baby-boomers are now reaching peak childbearing age.

Consolidated net sales for the year totaled ¥45,307 million, up 8.5% from the previous year. Operating income climbed 24.3%, to ¥2,754 million, and ordinary income grew 24.8%, to ¥2,745 million. Net income jumped 42.7%, to ¥1,916 million. The surge in net income stemmed mainly from the sale of the Corporation's head office land and building in June 2006. Pigeon has now relocated to a building in Nihonbashi-Hisamatsucho, Tokyo.

The Corporation focused on addressing two key issues in the year under review: reorganization of the domestic market and expansion of the Chinese market.

Sales in the baby and child care segment amounted to ¥35,501 million, up 10.3% from the previous year. Operating income increased 18.2%, to ¥4,962 million. This segment is classified into three categories: domestic baby and child care products, child-rearing support services, and overseas business.

In the domestic baby and child care products category, we sought to recover market share for baby wipes, raise recognition of our brand, and upgrade our direct communications activities. In the child-rearing support services category, we expanded our track record for operation of daycare centers. We also reported solid progress in the overseas business category, especially in China and the United States.

Sales in the healthcare segment slipped 2.3%, to ¥6,324 million, and operating income edged down 0.3%, to ¥341 million. During the year, we focused on joint initiatives with Pigeon Tahira Co., Ltd., such as launching new products to help elderly people delay the need for nursing care. However, we failed to achieve the previous year's results.

Sales from other operations totaled ¥3,481 million, up 12.9%. Operating income grew 41.7%, to ¥401 million. Pigeon Will Co., Ltd., a consolidated subsidiary that sells maternity undergarments, expanded its operations in the year under review. During the year, we reported increased sales of Folic Acid Plus, a vitamin supplement combining all of the nutritional elements essential during pregnancy and breastfeeding into one tablet.

Shareholder Return

With respect to appropriating earnings, our policy is to actively return profits to shareholders. We do this by paying stable and ongoing cash dividends, with the emphasis on raising dividend levels where possible. Here, we into account various factors, such as a suitable payout ratio that reflects our consolidated performance.

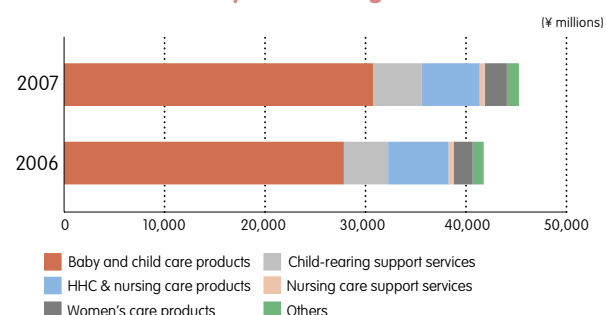
Corporate Culture

At Pigeon, we seek to nurture people who place great value in deepening their understanding of our corporate motto, "Only love begets love." We also recognize that corporate value represents the summation of shareholder value, customer value, and employee value. In order to provide high-quality products for people to use, we must create an environment that motivates employees to work. If we don't take care of our employees, we cannot succeed in business. For this reason, we are upgrading various frameworks and systems to create an appropriate working environment, while building a corporate culture that helps employees perform their tasks more easily.

Consolidated sales (Years ended January 31)

Segment \ Period	¥ millions			
	2007	2006	Change	Change (%)
Baby and child care	35,501	32,185	3,315	10.3
Healthcare	6,324	6,476	△151	△2.3
Others	3,481	3,085	396	12.9
Total	45,307	41,747	3,560	8.5

Consolidated Sales by business segment (Years ended January 31)



Business Development and Future Strategy

Under its business advancement strategy, the Group will reinforce its unique position and competitive edge in the baby and child care segment, its core business. At the same time, we will actively mobilize Groupwide synergies and collective strengths to build a strong presence in growth areas. Through these actions, we will seek to maximize corporate value on a global scale.

1. Our domestic business in baby and child care products forms the core of the Group's operations and is a key determinant of our overall corporate value. Our basic strategy for this business is to "create value."
2. We will position our child-rearing support, overseas, and healthcare businesses as growth areas.
3. Addressing changes in the earnings structure of our overall business, we will reform internal systems and redistribute managerial resources.

To date, we have made proactive investments to address the dramatically changing nature of our business structure. We have also strengthened our foundation for strategic growth by seizing M&A opportunities in Japan and overseas, with the aim of creating an efficient, growth-oriented corporate group. In the future, will further raise overall Group competitiveness. At the same time, we will implement drastic reforms of our sales strategies in the difficult domestic baby-

care products market, as well as in our healthcare business. According to a population survey report issued by the Ministry of Health, Labour and Welfare, in calendar 2006 there were approximately 1,092,000 births in Japan, up about 30,000 year-on-year. Although the increase in pregnancies and births is partly attributable to recovery of the domestic economy, we believe that sustained increases are highly unlikely. In response, the Group will target further growth of its member companies while pursuing synergies with new businesses and continuing its proactive business investment policy. In these ways, we will work to meet the performance objectives of Global 500 and satisfy the expectations of all shareholders.

Three-Generation Marketing

Under our core three-generation marketing strategy, we are expanding our businesses by working hard to achieve universal recognition of the Pigeon brand. Here, we are targeting three specific market niches: (1) baby and child care products and child-rearing support services for those aged between zero and six years; (2) maternity and women's care products for women aged between 25 and 40 years; and (3) health-related products and nursing care products and services for older people, aged between 60 and 80.




Business Progress (As of April 30, 2007)

Pigeon Group Companies		Capitalization	Controlling Share	Description of Business
Baby and Child Care	Pigeon Home Products Co., Ltd.	¥300 million	100.0%	Manufacture of toiletry products, planning and sales of Pigeon's health foods
	PHP Hyogo Co., Ltd.	¥240 million	100.0%	Manufacture of Pigeon-brand wet tissues
	PHP Ibaraki Co., Ltd.	¥222 million	100.0%	Manufacture of Pigeon-brand wet tissues
	PIGEON SINGAPORE PTE. LTD.	SGD1,670,000	100.0%	Purchase and Sales of Pigeon's trademark maternity and infant products
	PIGEON (SHANGHAI) CO., LTD.	US\$950 thousand	100.0%	Manufacture and sales of Pigeon's trademark maternity and infant products
	PIGEON INDUSTRIES (THAILAND) CO., LTD.	BAHT144 million	97.5%	Manufacture of Pigeon's trademark maternity and infant products
	THAI PIGEON CO., LTD.	BAHT122 million	53.0%	Manufacture of Pigeon's trademark infant products
	LANSINOH LABORATORIES INC.	US\$1	100.0%	Sales of Maternity and infant products
	PIGEON MANUFACTURING (SHANGHAI) CO., LTD.	US\$2 million	100.0%	Manufacture of Pigeon's trademark maternity and infant products and some toiletries (Planning)
	Pigeon Hearts Co., Ltd.	¥100 million	100.0%	Consignment operation of daycare and child-minding centers
Healthcare	Pigeon Home Products Co., Ltd.			
	PHP Hyogo Co., Ltd.			
	Pigeon Tahira Co., Ltd.	¥100 million	85.6%	Purchase and Sales of nursing care products
	Pigeon Manaka Co., Ltd.	¥10 million	67.0%	Sales of Pigeon-brand nursing care products
Others	Pigeon Home Products Co., Ltd.			
	Pigeon Will Co., Ltd.	¥100 million	100.0%	Purchase and Sales of maternity and infant products

Overview of 50 years



On August 15, 2007, Pigeon celebrates the 50th anniversary of its founding.

~1950	1960	1970	1980	1990	2000
From Birth to Listing on the First Section of the Tokyo Stock Exchange					
<p>1949 Dogaku Boeki, Pigeon's predecessor, established</p> <p>1957 Pigeon Honyuki Honpo (Baby Bottle Manufacturing) Co., Ltd. established</p>	<p>1966 Name changed to Pigeon Co., Ltd.</p>	<p>1973 Head Office building in Kanda-Tomiyama-cho, Chiyoda-ku, Tokyo constructed</p>	<p>1985 Corporate identity based on the Pigeon business philosophy of "Providing the gift of love to all" adopted</p> <p>1988 Stores registered with the Securities Dealers Association of Japan</p>	<p>1995 Listed on the Second Section of the Tokyo Stock Exchange on July 7, 1995</p> <p>1997 Listed on the First Section of the Tokyo Stock Exchange</p>	<p>2006 Head Office relocated to Nihonbashi-Hisamatsu-cho, Chuo-ku, Tokyo</p> 
Presidents, Past and Present					
<p>1952 Yuichi Nakata appointed President</p>	<p>1962 Special feature on President Yuichi Nakata, entitled "President's Big Challenge on Baby Bottle", carried in popular weekly magazine, <i>Shukan Bunshun</i>.</p>		<p>1983 Yoichi Nakada appointed President; Yuichi Nakata appointed Chairman</p>		<p>2000 Seiichi Matsumura appointed President and Chief Operating Officer</p> <p>2007 Akio Okashi appointed President and Chief Operating Officer; Seiichi Matsumura appointed Chairman and CEO.</p>
Evolution of baby bottles					
<p>1949 First baby bottle in Japan with wide cap (A-type) launched</p> <p>1952 B-type baby bottle launched, leading to subsequent development of new products</p>	<p>1960 A-type bottle DX with odorless silicon nipple launched</p> <p>1962 Baby bottle made from tough, lightweight polycarbonate launched</p> <p>1965 Ground-breaking double-molded baby bottle launched</p>	<p>1972 President Yuichi Nakata's track record in baby business featured in newspaper advertisements</p> <p>1977 Launch of plastic Nurser P-type</p> <p>1979 Launch of new-standard K-type baby bottle (still used today)</p>	<p>1988 Unveiling of baby's natural sucking, peristaltic motion</p>		<p>2000 Launch of environmental hormone-free polyether sulfone (PES) baby bottle</p> <p>2002 Launch of wideneck bottle "Bonyu Jikkan" which promote baby's natural tongue movement</p>
Always Ahead of the Times					
<p>1956 Baby and child care-related products launched</p>	<p>1963 Japan's first truly disposable diaper launched</p> <p>1966 Baby powder, first in a new range of baby hygiene products, launched</p>	<p>1973 Consumer service set up at Head Office and all domestic sales offices</p> <p>1975 World's first diaper liner made using binder-free manufacturing method launched</p> <p>1976 World's first rubber toothbrush for milk teeth launched</p> <p>1978 Antenatal classes started</p>	<p>1982 First music concert for expectant mothers held</p> <p>1987 Newborn Baby Commemorative Tree-Planting Campaign launched</p> 	<p>1994 "UV Baby Skincare", first UV-ray protection skincare product for babies</p>	
Overseas					
	<p>1966 Export of Pigeon products to other countries started</p>	<p>1973 First overseas office established in Singapore</p> <p>1978 Pigeon Singapore Pte. Ltd. established</p>		<p>1990 Joint venture in Thailand, Thai Pigeon Co., Ltd., established</p> <p>1996 Pigeon Industries (Thailand) Co., Ltd. established</p>	<p>2002 Pigeon Shanghai Co., Ltd. established in China</p> <p>2004 Lansinoh Laboratories, Inc. becomes part of the Pigeon Group</p>
Generations of Top Selling Products					
	<p>1963 Milk powder case</p> <p>Sponge brush for baby bottles</p> <p>1965 "Sun Baby" hot-water bottle</p> <p>1966 Baby powder</p> <p>1968 Nail scissors for babies</p>	<p>1975 Liquid Cleanser for nursing products</p> <p>1976 Toothbrush for milk teeth</p>	<p>1982 "MagMag" training cup</p> <p>1985 Breast Pad</p>	<p>1992 Baby Wipe</p> <p>1994 UV-protection skincare</p>	
Nursing Care and Child Rearing Support Services: Now Covering Three Generations					
		<p>1975 Habis Business Department, targeting the senior market, established</p>	<p>1982 Pigeon Textiles (now Pigeon Will) established to manufacture and sell maternity wear</p> <p>1983 Health maintenance products launched under the "Habis" brand</p>	<p>1993 Pigeon Land Joso, child-minding center for children from 0 years, opened</p> <p>1996 Pigeon Wendy, baby-sitter dispatch service, launched</p> <p>1999 Pigeon Kids World Co., Ltd., which operates a chain of child-minding centers, launched</p>	<p>2000 Pigeon Manaka Co., Ltd. established</p> <p>2002 PHP Hyogo joins Pigeon Group</p> <p>2003 Pigeon Kids World changes name to Pigeon Hearts Co., Ltd.</p> <p>2004 Tahira Co., Ltd. (now Pigeon Tahira Co., Ltd.) becomes part of the Pigeon Group</p>
Products Presented with Good Design Awards					
			<p>1989 "Chibion" digital thermometer for babies</p>	<p>1999 Nail scissors for newborns</p>	<p>2001 Fourth-generation "MagMag" training cup and Pigeon pacifier</p> <p>2003 Baby shoes and adult incontinence pads featuring a new design</p> <p>2004 Electric finishing toothbrush for milk teeth</p> <p>2005 Fifth-generation "MagMag" training cup and "Chibion Fit" digital thermometer for baby</p> <p>2006 "Basic Post-Natal Shaper" series of undergarments</p>

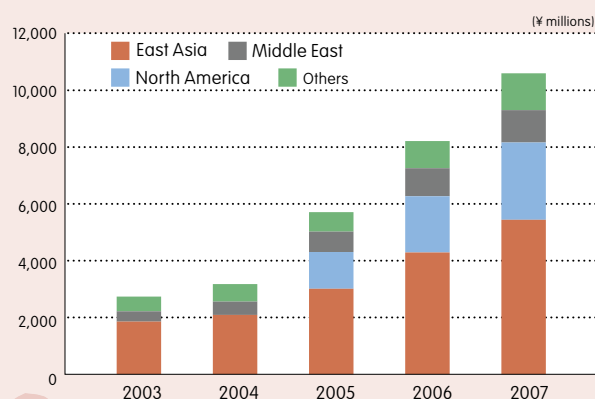
Overseas Strategies

Overview

Pigeon launched its overseas business in the 1960s when it started exporting Japanese-made products for sale via local distributors. In 1973, we opened an office in Singapore, and in the 1990s we established two production companies in Thailand. These operations began manufacturing three mainstay products: silicone nipples, baby bottles, and breast pads. Such overseas production helped enhance our competitiveness in overseas markets and laid the foundation for further business expansion. In 2002, we established Pigeon (Shanghai) Co., Ltd., to tap into the rapidly expanding market in China. Then, in 2004, we transformed U.S.-based Lansinoh Laboratories, Inc. into a consolidated subsidiary and launched an aggressive campaign to further penetrate markets in China, North America, and Europe. The Chinese and North American markets have become major growth drivers in Pigeon's overseas business, recording sales of ¥2.6 billion and ¥2.7 billion, respectively, in the year under review. We anticipate further growth in overseas sales, which currently represent 23.4% of net sales. In the year under review, we achieved year-on-year sales

increases in virtually every overseas market in which we have a presence, with baby bottles, baby bottle nipples, and breast pads the main contributors to revenue growth. All of our consolidated subsidiaries also reported improved results—further evidence of Groupwide synergies at work. In the current fiscal year, we have set our sights on expanding into the markets in India and Russia.

Consolidated Overseas Sales (Years ended January 31)



Business Strategies

Today, Pigeon-brand products are warmly supported in many countries worldwide for their quality and reliability. In addition to being well-known for its mainstay products, centering on baby bottles, baby bottle nipples, and breast pads, Pigeon is becoming widely recognized in various overseas markets as a brand of comprehensive child-rearing-related products. This is because we have spent many years overseas, steadily developing products based on the relentless pursuit of safety and quality while tapping new markets for our offerings. Backed by its brand power, Pigeon has adopted an overseas business strategy aimed at further strengthening its marketing capabilities to boost market development while steadily expanding its production facilities.

Under its medium-term management plan, the Pigeon Group is targeting overseas sales of ¥50 billion. In this context, our overseas business is assuming more and more importance. In addition to broadening our sales channels, therefore, we will consider capital tie-ups and M&A opportunities as we actively advance our overseas business.



Performance and Outlook

Sales of Pigeon's overseas business amounted to ¥10,590 million, up 29.0% from the previous year. For the year ending January 2008, we forecast a further 13.3% increase in overseas sale, to ¥12.0 billion.



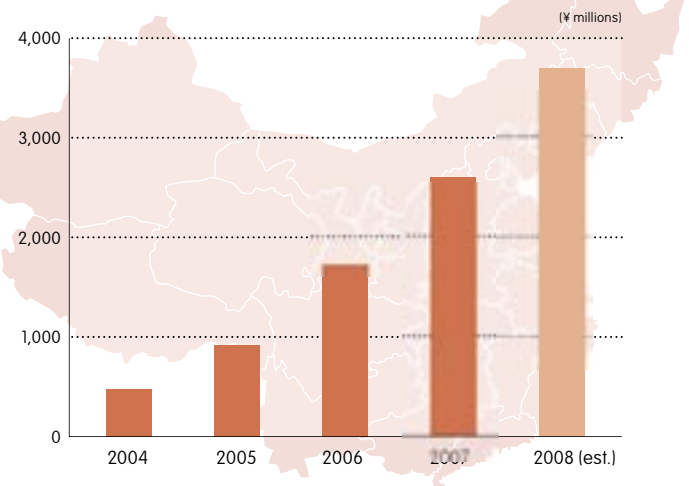
High-end skincare products for babies (China)

Pigeon Industries (Thailand) Co., Ltd.



Billboard in the Middle East

Consolidated Sales in China (Years ended January 31)



China

Business Environment

According to a survey conducted by its Bureau of Statistics, in fiscal 2006 China had a population of 1,314 million people and a GDP growth rate of 10.7%. According to forecasts, high annual growth rates in excess of 8.0% will continue for the next five years. Despite population control measures implemented by the government, there are 18 to 19 million births every year. The number of births is expected to rise in 2007, the "Year of the Golden Boar," and through to 2010 as baby boomers enter their peak child-bearing years.

Market Position

In the Chinese market, we target the so-called "new rich." By proposing innovative lifestyle choices and selling many convenient products to these customers, we are seeking to raise recognition of the Pigeon as a brand of comprehensive baby and child care products. To this end, we have already launched around 470 products in the Chinese market, which differs us from our competitors. Increasing demand for high-priced items has contributed to healthy growth in sales of Pigeon's high-end skincare products. In large cities on and near the eastern seaboard, we will continue to develop high-end sales channels in order to meet demand for such products.

Business Strategy

In addition to expanding our lineup of high-end skincare products, we plan to create up-market retail stores, enhance recognition of Pigeon as a high-end brand, and cultivate brand loyalty. Complementing our product lineup, we will begin developing child-rearing support services in Shanghai, reflecting our two-pronged approach to the important Chinese market.

Performance and Highlights

In the year ended January 31, 2007, sales in China were exceptionally strong, rising 52%, to ¥2.6 billion. This was attributable to higher sales of skincare products, baby bottles, and baby bottle nipples. We currently have around 500 Japanese female childcare workers resident in Shanghai who are registered with Pigeon Land Shanghai Gubei, a child-rearing support center. We have also started accepting applications from Chinese workers, with the aim of expanding this business even further.

Future Plans

In order to further raise brand recognition and loyalty in China, we will set up independent Pigeon sales sections in department stores and "Pigeon corners" in other retail outlets. In the year ending January 31, 2008, we plan to have a consistent sales presence for Pigeon in around 200 stores nationwide.



"Pigeon corner" in China

Comments from Consumers in Beijing and Shanghai

Survey undertaken in December 2006

Shanghai (comments Pigeon's baby bottles)

Since most baby bottles made in China are made of plastic, it is good to see that the Pigeon range has bottles made of glass. Glass bottles are hygienic and not affected by temperature. The thermal bottle bag is also easy to use, thanks to the zipper on the upper half. Because the outermost layer of the thermal bag is nylon, if it gets dirty you simply wash it and it dries quickly. The bag also retains heat well, keeping the bottle warm for four to five hours.

Beijing

Pigeon's products are made in Japan, and are not so expensive. Due to the high quality, I can use these products with peace of mind.

Because winter in Beijing is very cold and dry, I would like to see skincare products that help my skin retain moisture.

North America

Business Environment

With an average fertility rate of 2.1 children, the United States is an advanced country with a very stable birth rate. Doctors in that nation generally recommend breastfeeding, so demand for breastfeeding-related products is high relative to Japan. For this reason, high-quality products supplied by Lansinoh Laboratories have garnered healthy support.

Business Strategy

In April 2004, we acquired Lansinoh Laboratories, Inc., which markets well-known brands of breast-feeding related products, transforming it into a wholly owned consolidated subsidiary. We intend to continue with our initial medium-to-long-term strategy of establishing solid sales bases in the United States and Europe, securing sales channels for supplying leading nationwide retailers, and expanding sales of breastfeeding products. We aim to increase sales by introducing products not only to existing sales channels, but also to 250 Babies 'R Us stores nationwide. Following its favorable reception in test market sales, we launched sales of a manual breast pump, which will enhance market penetration of the Lansinoh brand.

Performance and Highlights

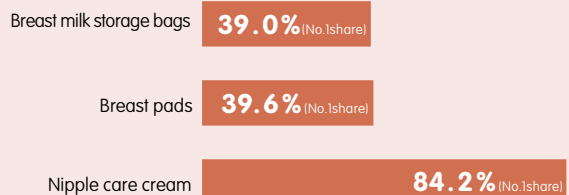
In the year ended January 31, 2007, sales in the United States climbed 35.7%, to ¥2,563 million.

After commencing sales of breast pads in the United States in January 2000, our share of that market grew to 33% within four years. Since then, we have steadily increased both sales and market share in North America.

U.S. Lansinoh Sales Products

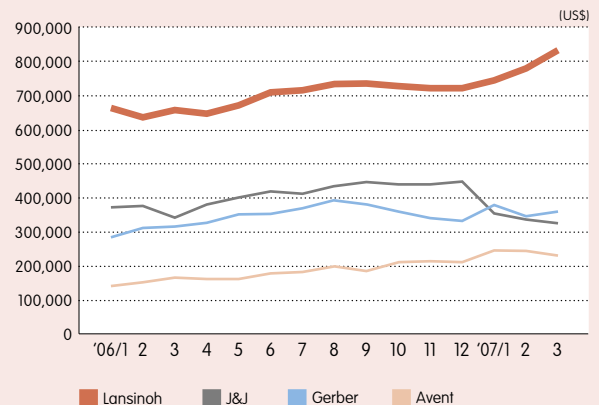


Lansinoh Laboratories, Inc.: U.S. Market Share



Survey Conducted by Pigeon

U.S. Sales of Breast Pads



Survey Conducted by Pigeon

At a Glance

Products/Services

Baby and Child Care



Breast-feeding-related products

Baby bottles, baby bottle nipples, baby bottle cleansers and sterilizers, disinfecting equipment, baby bottle cleansing brushes, sterilized tongs, breast pads, breast pumps



Weaning-related products

Mag Mag cooking equipment, feeding accessories, bibs, baby food, baby beverages



Skincare products

Soaps, shampoos, oils, lotions, sunscreens, powders, baby wipes, wet tissues



Others

Children's pharmaceuticals, digital thermometers, thermometer/barometers, scales, bathwater thermometers, child-safety goods, cotton swabs, toothbrushes, nail clippers, cooling blankets, cooling sheets, pacifiers, teething products, toys, bath toys, baby shoes



Child-rearing support services

Operation of child-minding and daycare centers, babysitter dispatch services

Healthcare



Nursing care products

Adult disposable diapers, incontinence pads and pants, diaper covers, waterproof sheets, pillows, abdominal wipes, body wipes, urine and fecal containers, shampoos, sterilizers, deodorizers, crockery, bibs, oral hygiene products, walkers, nursing bed, wheelchairs, sleepwear



Nursing Care Support Services

Business initiatives in Tochigi prefecture

Others



Women's care products

Dietary supplements, maternity goods



Others

Wet tissues

Operating Environment issues

Pigeon's baby and child care business is a core business that accounts for around 80% of consolidated revenues. This segment covers the full range of baby-related products, including breastfeeding- and weaning-related items, diapers, and skincare products, as well as provision of child-rearing support services.

As it approaches its 50th anniversary, Pigeon is now an industry leader, and the Pigeon brand has earned a reputation for safety, peace of mind, and reliability.

Overseas sales accounted for a significant 23.4% of segment sales in the year under review. Sales increased in both East Asia, centering on China, and in North America. During the year, we began construction of a new plant in Shanghai that will make skincare products, toiletries, and baby bottle nipples. The plant is expected to commence operations by the end of 2007. For the year ending January 2008, we forecast a 13.3% increase in overseas sales in this segment.

Strengths of the Pigeon Group

In the year under review, Pigeon recaptured the top share of the domestic market for baby wipes, a core product, with a 38.5% share at fiscal year-end. During the year, we sought to provide customers with more detailed information about our products via 250 "Pigeon corners," which we set up in retail stores throughout Japan. These efforts helped boost demand for our high-end products.

The healthcare business represents an important component of Pigeon's three-generation marketing strategy. As a major future market, this segment is one of the Group's main pillars.

Pigeon Tahira Co., Ltd., a consolidated subsidiary, is also involved in the Group's healthcare business. Together with Pigeon Tahira, in the year under review we launched the new RE series of Nursing Care Prevention Goods, the first outcome of a joint initiative involving the restructuring and integration of our respective distribution functions. During the year, Pigeon Manaka Co., Ltd., a subsidiary that provides in-home nursing care services for the elderly, continued to offer services while emphasizing close ties with its local communities in Tochigi Prefecture.

The Group's strengths in this segment derive from its technical and information capabilities, acquired through its experience in the baby and child care business. Pigeon Tahira Co., Ltd., which became a Group company in 2004, is developing its business as a dedicated sales company, now that its distribution, product development, and production functions have been assimilated by the parent company.

Through the establishment of the Elderly Health Care Division, we have created a structure that clarifies the parent company's position in the healthcare business. In the year ending January 2008, we will broaden our target market by focusing on products designed to prevent the need for nursing care.

Pigeon's women's care products business performed strongly in the year under review. We enjoyed solid demand for maternity goods on the back of overwhelming support from young women who wish to remain fashionable during pregnancy. This business also benefited from the convenience offered by our comprehensive sales network, which encompasses, department stores, mass market retailers, and the Internet. We also recorded strong sales of the dietary supplement Folic Acid Plus, which gained extra exposure through its inclusion in maternity passbooks, which the government issues to all expectant mothers to record the progress of their pregnancies and their children's early years.

Pigeon Will Co., Ltd., another Group company, is primarily responsible for sales of maternity undergarments.

In this segment, we are enjoying strong sales of Folic Acid Plus, a health supplement that can be taken safely during pregnancy and while breastfeeding.

Domestic Baby Care Products

Market Trends

Despite a temporary recovery in the domestic birthrate in calendar 2006, in the long term we expect the birthrate to fall or remain mostly unchanged.

Pigeon's Competitive Edge

For half a century, Pigeon has offered top-quality baby and child care products developed through its research into breastfeeding and infant and child development. Our competitive edge lies in our high public profile as an industry leader and creator of the prominent Pigeon brand.



Wideneck bottle "Bonyu Jikkan"

Business Strategy

In response to the declining birthrate in Japan, we implemented a strategy to enhance name recognition and reinforce the power of the Pigeon brand. Under this strategy, we are introducing initiatives that appeal directly to consumers, while offering value-added services through various means, including the establishment of "Pigeon corners" in retail stores. Through these measures, we will seek to raise our market presence dramatically and thus further consolidate our competitive edge. Keen to convey the joys of raising children via mass media, in April 2007 we began sponsorship of a short television program showing scenes in which there is a baby in the family.



"Baby Style" currently broadcast on Fuji Television (Wednesdays, 21:54 to 22:00)

Specific Initiatives

In the year under review, we held ante-natal classes for expectant mothers on 52 occasions. These classes enable one-on-one communication with the aim of dispelling any anxieties surrounding childbirth and child-raising that expectant mothers may have. During the year, we also held

"Maternity Café" events and a Christmas concert. Sponsoring these kinds of activities, which enable expectant mothers to prepare for motherhood and form friendships with others in similar situations, offers opportunities for women to talk and share their anxieties and problems with others.



Maternity Café

Performance and Highlights

In the year ended January 2007, sales in the baby and child care segment totaled ¥20,422 million, up 3.4% from the previous year—representing the first year-on-year sales increase in this segment for four years.

This growth in sales is attributable to increased sales of core products and the success of our brand reinforcement campaign, which included the establishment of "Pigeon corners" in retail stores. Aggressive marketing of baby wipes, which had suffered declines in both sales and market share in the previous fiscal year, contributed to this product regaining the No. 1 share of the Japanese market (38.5% in January 2007).

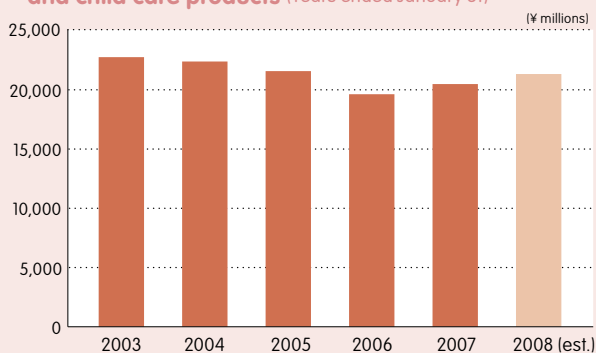
We also held a variety of events for expectant mothers, organized with the aim dispelling any anxieties concerning pregnancy, childbirth, and child-rearing. In addition, we sought to enhance name recognition among consumers via television commercials and publicity activities.

Outlook

Despite a temporary recovery in domestic childbirths in 2006, we expect the birthrate to fall or remain mostly unchanged over the long term.

Looking ahead, we will strive to expand our business by further enhancing the value of the Pigeon brand. Leveraging the brand power of our baby and child care products, developed through half a century of research into infant and child development, we will endeavor to provide high-quality child-rearing support services. We will also increase the number of child-minding and daycare centers under our umbrella offering services that other companies cannot imitate.

Consolidated Domestic sales of baby and child care products (Years ended January 31)

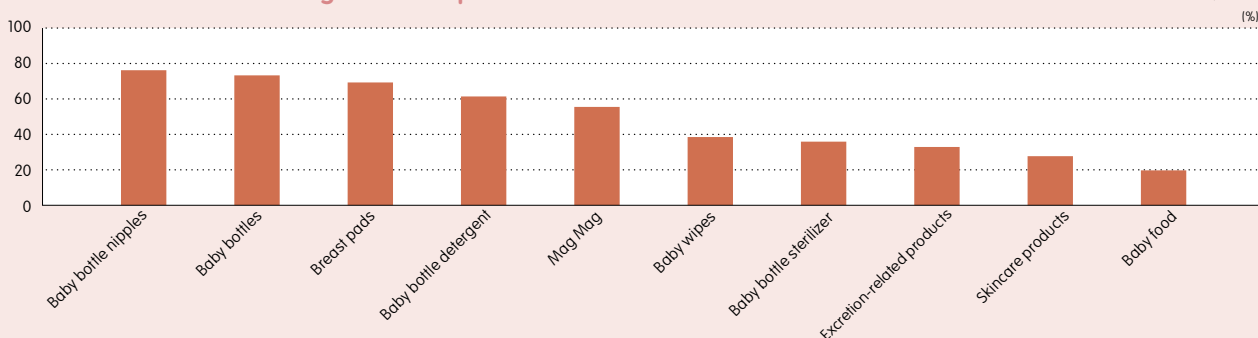


Business Operations

Office Ami-machi, Inashiki-gun, Ibaraki
 Distribution centers Ami-machi, Inashiki-gun, Ibaraki
 Hitachiota-City, Ibaraki
 Kamikawacho, Kanzaki-gun, Hyogo
 R&D Institute Tsukubamirai-City, Ibaraki
 Domestic sales offices Sapporo, Sendai, Saitama, Tokyo,
 Nagoya, Osaka, Hiroshima,
 Matsuyama, Fukuoka

Domestic market share of Pigeon's main products

Source: Extrapolated from POS data from 50,000 drug stores nation wide (INTAGE Inc., January 2007)



Average monthly expenditures per infant

(¥)

	2001	2002	2003	2004	2005	2006
Powdered milk	1,836	1,798	1,630	1,739	1,794	1,360
Baby foods	915	785	908	810	1,008	875
Cow's milk	557	514	372	473	378	352
Snacks	749	718	706	670	750	567
Others (foods)	2,087	1,876	1,638	1,608	2,371	2,010
Subtotal (foods)	6,144	5,691	5,255	5,300	6,301	5,165
Clothes (under, outer), shoes, etc.	3,741	3,435	3,763	3,483	4,081	3,862
Cloth diapers, diaper covers/liners, etc.	189	156	88	125	130	156
Disposable diapers	3,184	3,267	3,285	3,290	3,405	3,602
Cloth diaper rental	31	33	25	32	9	0
Subtotal (clothes, diapers)	7,145	6,891	7,160	6,929	7,625	7,620
Medical treatment, pharmaceuticals	781	748	564	516	521	784
Toys	1,270	1,235	1,538	1,289	1,358	1,453
Picture books	403	440	552	485	555	527
Subtotal (toys, picture books)	1,673	1,675	2,090	1,774	1,913	1,980
Breast-feeding, baby food crockery	284	308	259	336	364	422
Bathing/hygiene accessories	1,103	1,122	1,069	1,237	1,262	1,182
Subtotal (breast-feeding, baby food crockery, bathing, hygiene)	1,387	1,431	1,328	1,572	1,626	1,604
Outdoor, furniture, beds, etc.	2,304	1,432	1,934	2,030	1,782	2,186
Total	19,434	17,869	18,331	18,122	19,768	19,339

Source: Sample from September 2006 survey of 960 mothers of infants aged between zero and 24 months, related to baby care products (survey conducted by Pigeon)

Child-Rearing Support Services

Business Environment

After a prolonged period of concern about declining birthrates, the diversified needs of people with respect to child-rearing are finally being addressed. In July 2003, the Law of Measures to Support the Development of the Next Generation was enacted as a social initiative to support families rearing children. This has led to heightened interest in what individuals and companies can do to assist in the raising of children.

Market Position

The Pigeon Group is the industry leader in the provision of child-rearing support services. Today, we operate a host of child-minding facilities, including government-approved and certified centers, in-company facilities, and the Kids World chain of centers. In addition, we provide babysitter dispatch services to people's homes. In these and other ways, we are supporting the child-rearing activities of parents in various forms.

Business Strategy

Pigeon has built a track record as a leading company in the area of baby and child care products, derived from half a century of research into breastfeeding and infant and child development. Building on this record, we have made major and broad advances into the child-rearing support business to address the needs of the times. In this business, which centers on child-minding services, child education services, and babysitter dispatch services, we are developing solutions aimed at providing ideal child-rearing environments, both in terms of both hardware and software. In the process, we are consolidating our position at the top of the industry.

Performance and Highlights

In the year under review, sales from child-rearing support services amounted to ¥4,807 million, an increase of 9.0% over the previous year. During the period, we were entrusted with the operation of a daycare center run by the Nakano Ward government. We also opened six new in-company child-minding operations

Outlook

In addition to addressing the diversified lifestyles of modern parents, we will deliver high-quality services to meet the

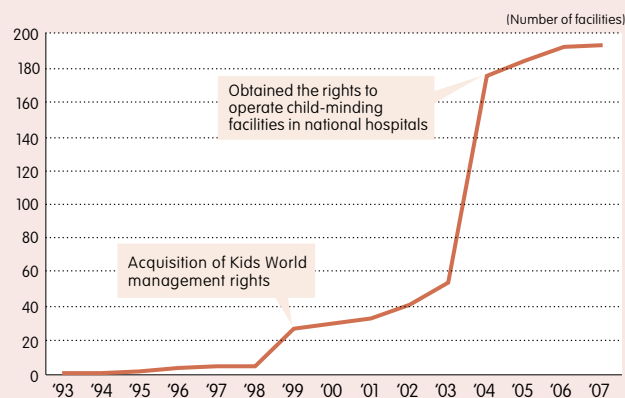
needs of companies, hospitals, local government entities, and other organizations.

In order to create safe and secure child-rearing environments that place top priority on the child, we must find and train highly competent staff. In this regard, we will seek to expand our business and differentiate it from those of other companies.



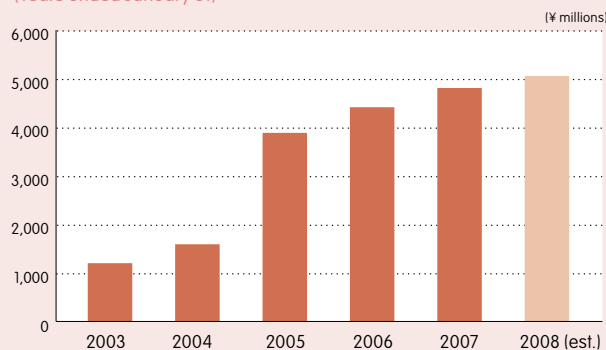
Child-minding Center

Pigeon Group's child-rearing support operations



Consolidated Sales from child-rearing support services

(Years ended January 31)



Nursing Care Products and Services

Business Environment

Japan is known for having the longest average life span of any advanced country in the world. This phenomenon has raised awareness the needs of elderly people, who wish to lead happy and healthy lives. Today, the quality life has become a high priority in Japan, and people are generally far more conscious about health issues. Reforms to the Nursing Care Insurance Law in 2006 have prompted a positive shift to emphasis on prevention. By 2010, the nursing care and related markets are expected to be worth ¥11 trillion. The market for nursing care products and services is steadily expanding, and by 2015 one in every four Japanese people will be at least 65 years old.

Market Position

Nursing care products encompass many different categories, including items related to bodily functions, bathing, hygiene, meals, sleeping, and mobility. A key strength of the Pigeon Group's strength is its two sales channels for nursing care products: retail stores and nursing homes and other facilities. We also offer in-home nursing care services, primarily in Tochigi Prefecture.

Business Strategy

Our aim is to expand our healthcare business segment through two main strategies. The first is to reorganize our existing nursing care business, drawing on our expertise in this field. Our second strategy is to launch products designed to prevent the need for nursing care.

Performance and Highlights

Sales in the healthcare segment declined 2.3%, to ¥6,324 million. Within this amount, sales of nursing care products slipped 2.6%, to ¥5,798 million, and sales from nursing care services rose 0.7%, to ¥526 million. Operating income for the segment edged up 0.3%, to ¥341 million. During the year, we launched new products in the nursing care prevention category, developed jointly with Pigeon Tahira Co., Ltd. However, these were not sufficient to improve on the previous year's results. Pigeon Manaka Co., Ltd., which provides nursing care services for the elderly, also felt the impact of revisions to the Nursing Care Insurance Law in April 2006, recording lower sales of equipment for both in-home care and institutional use.

Outlook

Recognizing the need to generate Groupwide synergies in order to expand our healthcare business, in the current fiscal year we have started restructuring this segment of our operations. Specifically, we established the Elderly Health Care Division to take control of marketing and sales covering the Pigeon Group's entire healthcare business, including the operations of Pigeon Tahira and Pigeon Manaka. Product development, meanwhile, will be centralized at the Pigeon Joso Research Center. From the second half of fiscal 2007, we will pursue a business development strategy based on two brands: the Recoup brand, which we will launch in the nursing care prevention category, and the existing Habinurse brand of nursing care products.



Nursing care prevention goods (shoes)

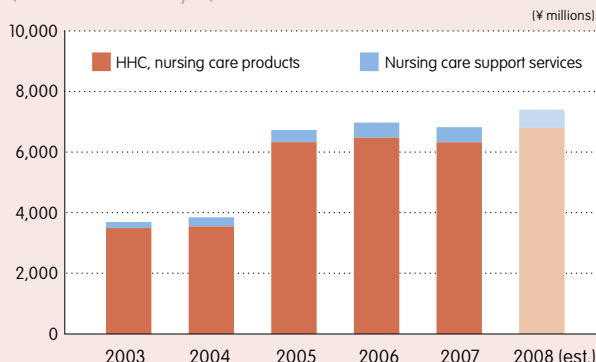


Nursing care prevention goods (vests)



Nursing care prevention goods (spats)

Consolidated Sales from healthcare business (Years ended January 31)



Women's Care Products/ Others

Business Environment

The Pigeon Group's target market in this segment is worth around ¥13 billion. Due to the increasing number of women who work while raising children, as well as the broadening span of their child-bearing years, women's lifestyles are becoming more segmentalized, and their needs are diversifying. Accordingly, women are growing more and more aware about maternity items and are demanding inner wear garments that excel in terms of both function and design.

Market Position

Pigeon Will Co., Ltd., a Pigeon Group company, makes maternity undergarments, which it sells via the full spectrum of channels, including department stores, mass market retailers, and the Internet. This structure, which is unique in the maternity industry, enables us to meet the needs of all customers. Pigeon Will also conducts joint product development with the Pigeon Joso Research Center, enabling it to develop products with a strong R&D backing. Moreover, it is the only member of the Pigeon Group with its own direct sales channels, a strength that it demonstrates to full effect.

Performance and Highlights

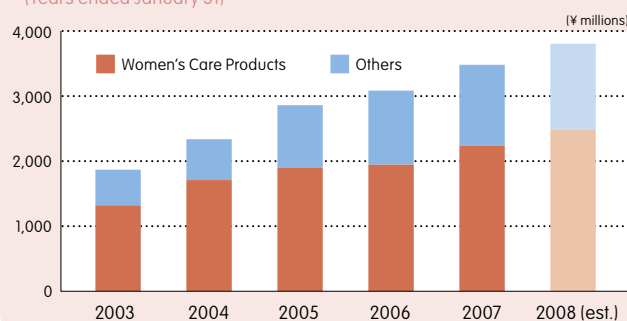
In the fiscal year under review, the women's products and others segment posted sales of ¥3,481 million, up 12.9% from the previous year. The bulk of maternity undergarment sales are derived from the business of Pigeon Will. In 2006, that company submitted entries in the Good Design Awards competition for the first time, and received a Good Design Award for its Basic Reform Foundation series of post-natal undergarments. This is a new line of products, developed in response to requests by mothers for post-natal use, and sales have been very healthy.

Another solid performer has been Folic Acid Plus, a health supplement that can be taken during pregnancy and while breast-feeding with complete ease of mind. In 2000, the Japanese Ministry of Health, Labour and Welfare issued a notice recommending that women of child-bearing age should take between 0.4mg and 1.0mg of folic acid daily as a nutritional supplement on top their regular diet. In addition to providing folic acid, one feature of Folic Acid Plus is that just one daily tablet is an easy way for women to receive their requirement of iron and vitamin B—elements that they tend to lack before and after childbirth. Accordingly, Folic Acid Plus has won acclaim as a supplement that can be taken safely during pregnancy. In another highlight for the women's care products category, we launched haircare and other items in China in 2006.

Outlook

In this segment, we plan to supply the Basic Reform Foundation series of maternity accessories, which received a Good Design Award in 2006, to mass-market retailers. We will continue to engage in product development that maximizes synergies with the research and development division of Pigeon. At the same time, we will target further expansion of our market share in China.

Consolidated Sales from other businesses
(Years ended January 31)



Postnatal inner wear ("Basic Reform Foundation Series")



Nutritional supplement (Folic Acid Plus)



Pigeon Mall online shopping site

Corporate Governance

Basic Stance

Embracing a strong sense of ethics, our executives and employees promote compliance-oriented management across all areas of the Group's business activities, and are dedicated to helping Pigeon fulfill its social responsibilities as a corporation. This dedication is reflected in Pigeon's corporate motto, "Only love begets love." To achieve sustained increases in corporate value, meanwhile, we recognize the crucial importance of various factors. These include improving management efficiency and transparency and strengthening the management oversight function, with the aim of achieving performance targets while maintaining a proper balance between value for shareholders, value for customers, and value for employees. Based on this recognition, we are implementing a variety of initiatives to upgrade our corporate governance system.

Pigeon's Board of Directors consists of seven members, none of whom are outside directors. The Corporation has also adopted a corporate auditor system, with four corporate auditors, including two outside ones. In addition to the Board of Directors and corporate auditors, Pigeon is building a corporate governance framework based on internal control systems. The task of the seven directors is to address changes in the business environment swiftly and appropriately, and thus achieve sustained growth and establish a solid operating foundation. To this end, we are seeking to build an infrastructure conducive to rational and effective decision-making.

While the Board of Directors handles control and supervision, Pigeon also has a system of executive officers,

responsible for execution of business. By separating the decision-making and supervision function from the business execution function, we are working to ensure sound corporate governance.

Compliance

As part of its risk management system, Pigeon has established an in-house compliance program. We have also produced a guidebook to help all Group employees understand and practice legal and ethical compliance. To enhance the efficacy of our compliance system, we have established a hotline within our internal reporting system, encouraging employees to speak up when they encounter problems.



Protecting Personal Information

The Pigeon Group is currently working to improve its information security and personal information protection systems, which it regards as crucial to the effective delivery of products, services, and information to customers. One key objective has been to acquire the Privacy Mark certification, bestowed by the Japan Information Processing Development Corporation (JIPDEC) upon businesses with appropriate mechanisms in place to protect personal information. To this end, we set up a Personal Information Protection Committee and undertook Groupwide initiatives. As a result, we succeeded in obtaining certification in July 2005.

IR Activities

IR tools		
Presentation materials for financial results and medium-term business plans (Japanese/English)		As appropriate
Annual reports (Japanese/English)		Annually
Information meeting materials for overseas investors (English)		Annually
Business reports		Semiannually
Financial data reports (Japanese/English)		Semiannually
Home page and communications site	http://www.pigeon.co.jp	http://pigeon.info
IR activities		
Presentations of financial results		Semiannually
Presentations of medium-term business plans		As appropriate
Overseas investor forums and visits (Asia)		Annually
Domestic investor visits and small meetings		As appropriate
One-on-one meetings		Approx. 100 times per year

Corporate Social Responsibility

CSR Initiatives

The Pigeon Group's business philosophy of "providing the gift of love to all" is embodied in its mainstay business of providing products and services to people requiring assistance with pregnancy, childbirth, and child rearing. In other words, the nature of our business is well suited to CSR initiatives. We view all our stakeholders as customers and believe that maintaining a good balance between all of our stakeholders is in itself an act of corporate social responsibility, and one that enhances corporate value.

A good example of our CSR initiatives is a tree-planting campaign launched in 1986. The campaign is based on the premise that both babies and seedlings require warm and nurturing environments in order to grow and prosper. We began the campaign with the aim of creating a green area for future generations of children while raising awareness about the protection of forests. For the past 20 years, we have leased land from Japan's Forestry Agency in a national forest near Hitachi-Omiya City, Ibaraki Prefecture. There, we have planted 80,000 trees in an area that has now grown to 27.76 hectares.



Commemorative trees

Environmental Initiatives

The book "Our Stolen Future," published in 1997, has had a huge impact on the Company's baby bottles. According to the book, bisphenol-A can leach from baby bottles made from polycarbonate, and this exposure poses a risk to human reproduction. Upon learning this information, we swiftly formed a committee made up of the five companies that manufacture and sell baby bottles. The committee released "Guidelines for the Safe Use of Polycarbonate Baby Bottles" for consumers, manufacturers, hospitals, and maternity clinics. At the same time, we developed baby bottles made from polyether sulfones (PES), which do not use raw materials containing so-called environmental hormones. Further advances led to the launch in 2007 of a new baby bottle made from polyphenol sulfones.



Wideneck bottle, "Bonyu -Jikkan"

Community Initiatives

Pigeon provides child-rearing support services, including the operation of child-minding and daycare centers and babysitter dispatch services, that enable parents to work safe in the knowledge that their children are being well cared for. Pigeon Manaka Co., Ltd., a consolidated subsidiary, provides nursing care services for the elderly, emphasizing close ties with its local communities in Tochigi Prefecture. We plan to develop such community-based services that take into account local characteristics and conditions. In another initiative, since December 2000 our Tsukuba plant has undertaken a campaign to keep the surrounding community tidy. This has developed into a culture that sees all plant employees perform such activities as part of their everyday work. On a wider scale, we initiate other activities in the hope that people will accept Pigeon as a part of their communities. For example, all of our plants give guided tours to elementary and junior high school pupils, and also actively participate in local community events.



Local clean-up campaign

Social Initiatives

Pigeon baby bottles and nipples for newborn babies are used in many hospitals and maternity clinics. We also manufacture bottles and nipples for babies with lip and upper jaw problems, as well as for prematurely born babies with insufficient strength to drink properly. Pigeon has been supplying these products at the same price since they were first developed several decades ago. Our efforts to provide

such items strengthen our sense of being a corporation that is a member of society. When the number of nuclear families began to increase in Japanese society in the late 1970s, the notion spread that child rearing was something that was to be shared by both parents. Pigeon promptly played its part in contributing to social education by holding child-rearing classes for men.



Plastic nurser p-type

Feeder with long nipple

Customer Initiatives

The Pigeon Group adopts a customer-focused approach to its business activities. In the late 1960s, we set up a customer support service, which was not common practice in those days. This service has enabled us to reflect customer feedback in our business activities. Through our Baby Care Solutions initiative aimed at reducing and eliminating stress felt by parents, we provide a variety of services in addition to the Pigeon line of products. We have also revamped our community website portal, "Pigeon Info 2.0," an interactive site with a diversity of contents to help pregnant women and parents around the country. In addition, we hold nationwide maternity events, including antenatal classes to help prepare expectant parents for the birth of their children. Pigeon continues to provide detailed and abundant information based on data collected over many years of research into breastfeeding and infant and child development.

Employee Initiatives

As a company involved in baby and child care, we offer a range of child-rearing services to support our employees. We implemented a 12-month parental leave system one year before it became a legal requirement in Japan. Female employees took advantage of this system as a matter of course, but it was not well utilized by male employees. We subsequently adopted a new parental leave scheme offering one month's paid leave for men as a means of encouraging more men to take parental leave. Five male employees took this leave in 2006. This and other Company initiatives resulted in Pigeon's accreditation

under the Law for Measures to Support the Development of the Next Generation. Other initiatives aimed at creating a healthy workplace environment include mental health seminars for management personnel and a scheme aimed at salesmen and other employees who drive vehicles in the course of their duties that identifies those with excellent driving skills.



Next-generation accreditation mark

Information Disclosure Initiatives

We believe that one fundamental mission of a corporation is to return an appropriate level of profits to shareholders based on transparent business management. To achieve this, we must conduct business activities under clear management policies and disclose information on operating conditions and new businesses in an appropriate manner. It is important, therefore, that this is reflected in our business activities while maintaining clear channels of communication with shareholders and investors. We hold semiannual information meetings, in July and January, for institutional investors, at which we announce our business results. The Company's president, and its investor relations and public relations offices, prepare reports on business results for each quarter and take part in Q&A sessions. Other proactive information disclosure activities include the fielding of inquiries from overseas institutional investors by our head office and participation in the Equity Forum held annually in Singapore. The Pigeon website and the Japanese-language and English-language versions of annual reports compiled at the completion of each financial year serve as communication tools full of financial results and information that enable stakeholders to gain an overview of the Company's position. We strive to maintain a healthy relationship with domestic and overseas shareholders and investors and pursue information disclosure that meets their expectations and earns their trust.



Overseas IR Activities

Management's Discussion and Analysis of Operations

Environment and Performance

In the year ended January 31, 2007, the Pigeon Group reported consolidated net sales of ¥45,307 million, up 8.5% from the previous year. Ordinary income grew 24.3%, to ¥2,754 million, and net income jumped 42.7%, to ¥1,916 million.

Segment Review

Baby and Child Care

Sales in this segment amounted to ¥35,501 million, up 10.3% from the previous year. Operating income increased 18.2%, to ¥4,962 million. This segment is classified into three categories: domestic baby and child care products, overseas business, and child-rearing support services.

Domestic Baby and Child Care Products: In the year under review, we sought to recover market share for baby wipes, raise over-the-counter recognition of our brand, and upgrade our direct communications activities. Thanks to aggressive sales activities, we successfully regained our share of the baby wipe market. During the year, we held 52 prenatal maternity classes, as well as Maternity Café forums, a Christmas concert, and other events. To boost recognition of the Pigeon brand, we launched television commercials focusing on childbirth and conducted a proactive publicity campaign.

Overseas Business: The Group achieved solid business growth in East Asia, centering on China, as well as in North America. In China, we unveiled a line of high-end skincare products and multifunctional steam sterilizers. We are also building a new production facility in that nation to make skincare products, toiletries, baby bottle nipples, and other items. The new facility is scheduled to come on stream in November 2007. In addition, we are targeting more extensive penetration of high-end channels in China's coastal cities.

In North America, Lansinoh Laboratories, Inc., a consolidated subsidiary, launched its first new products since becoming a Pigeon Group member. These products, which included electric and manual breast pumps, generated solid business growth.

All of our other overseas consolidated subsidiaries are performing well, with results exceeding our expectations.

Child-Rearing Support Services: During the period, we were entrusted with the operation of a daycare center run by the Nakano Ward government. We also opened six new in-

company child-minding operations. As a result, we reported an improved year-on-year performance in this category.

Healthcare

Sales in this segment slipped 2.3%, to ¥6,324 million, and operating income edged down 0.3%, to ¥341 million.

During the year, we focused on joint initiatives with Pigeon Tahira Co., Ltd., which became a consolidated subsidiary in 2004, in order to highlight our competitive edge in the market. These initiatives included rearranging our product development system and launching our first joint brand, called RE, since integrating our distribution functions. Nevertheless, we failed to achieve the previous year's results. Meanwhile, Pigeon Manaka Co., Ltd., which provides healthcare dispatch services for the elderly, delivered services closely tied to its communities in Tochigi Prefecture. Due to an amendment to the Nursing Care Insurance System in April 2006, however, both the nursing care dispatch and the welfare equipment categories faced difficult conditions.

Others

Sales from other operations totaled ¥3,481 million, up 12.9%. Operating income grew 41.7%, to ¥401 million.

Pigeon Will Co., Ltd., a consolidated subsidiary that sells maternity undergarments, expanded its operations in the year under review. During the year, we reported increased sales of Folic Acid Plus (food with health claims), an easy-to-drink vitamin supplement containing all of the nutritional elements essential during pregnancy and breastfeeding. We also launched new products for women in China. This segment's overall performance improved as a result.

Outlook for Year to January 2008

In the domestic baby and child care products business, we expect difficult conditions to continue amid predictions that the recent recovery in births may not be sustainable. In response, we will harness Groupwide synergies and drawing power, establish a foundation conducive to increased revenues and earnings, and strive to raise our corporate value on a global basis.

For the year, we forecast consolidated net sales of ¥48.4 billion (up 6.8%), ordinary income of ¥2.85 billion (up 3.8%), and net income of ¥1.6 billion (down 16.5%).

Financial Data

Consolidated Balance Sheets (January 31, 2006 and 2007)

Item	Period	Millions of yen		Thousands of U.S. dollars
		2006	2007	2007
Assets				
Current Assets				
Cash and time deposits		1,903	2,680	225,002
Notes and accounts receivable		7,643	9,353	785,241
Marketable securities		—	6	50,374
Inventories		4,437	4,154	348,753
Other current assets		1,275	1,012	84,963
Total Current Assets		15,260	17,207	144,463
Fixed Assets				
Tangible fixed assets		13,358	13,340	111,997
Intangible fixed assets		3,035	2,580	21,661
Investments and other assets		2,284	2,519	21,146
Investment securities		1,214	1,513	12,703
Total Fixed Assets		18,677	18,440	154,815
Total Assets		33,937	35,648	299,286
Liabilities				
Current liabilities				
Notes and accounts payable		4,627	4,510	38,864
Accrued account payable		1,840	2,271	19,066
Income taxes payable		439	500	4,198
Accrued employees' bonuses		484	511	4,290
Other current liabilities		4,182	2,359	198,052
Total Current Liabilities		11,574	10,154	85,249
Long-term borrowings		121	1,040	8,731
Long-Term Liabilities		1,484	1,459	12,249
Total Long-term Liabilities		1,606	2,499	20,981
Total Liabilities		13,181	12,654	106,238
Minority Interests		443	—	—
Shareholders' Equity				
Capital stock		5,199		
Additional paid-in capital		5,146		
Retained earnings		11,052		
Net unrealized gain(loss) on securities		38		
Adjustment on foreign currency statement translation		△204		
Treasury stock		△920		
Total Net Assets		20,312		
Capital stock			5,199	43,649
Additional paid-in capital			5,165	43,363
Retained earnings			12,475	104,735
Net unrealized gain(loss) on securities			34	285
Adjustment on foreign currency statement translation			226	1,897
Treasury stock			△649	5,197
Minority Interests			541	4,542
Total Net Assets			22,993	193,040
Total Liabilities, Minority Interests, and Net Assets			35,648	299,286

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.11=US\$1.00.

Consolidated Statements of Income (For the year ended January 31, 2006 and 2007)

Item	Period	Millions of yen		Thousands of U.S. dollars
		2006	2007	2007
Net Sales		41,747	45,307	380,379
Cost of Sales		26,112	28,180	236,588
Gross Profit		15,634	17,127	143,791
Selling, general and administrative expenses		13,419	14,373	120,670
Operating Income		2,215	2,754	23,121
Other Income		364	351	2,947
Other Expenses		378	360	3,022
Ordinary Income		2,200	2,745	23,046
Extraordinary Income		56	1,274	10,696
Extraordinary Loss		72	713	5,986
Income before Income Taxes		2,184	3,305	27,747
Income Taxes		682	974	8,177
Adjustment for Corporate Tax		92	347	2,913
Less: Minority Interest in Net Income of Consolidated Subsidiaries		66	68	571
Net Income		1,342	1,916	16,086

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.11=U.S.\$1.00.

Consolidated Statement of Cash Flows (For the years ended January 31, 2006 and 2007)

Item	Period	Millions of yen		Thousands of U.S. dollars
		2006	2007	2007
Cash Flows from Operation Activities		1,765	2,367	19,872
Cash Flows from Investing Activities		△1,668	△395	△3,316
Cash Flows from Financing Activities		△1,018	△1,284	△10,780
Translation Gain (Loss) related to Cash and Cash Equivalents		56	89	747
Net Change in Cash and Cash Equivalents		△864	△776	△6,515
Cash and Cash Equivalents at Beginning Year		2,768	1,903	15,977
Net Change in Cash and Cash Equivalents Due to Newly Consolidated Companies		—	—	—
Net Increase in Cash and Cash Equivalents		—	—	—
Cash and Cash Equivalents at End of Year		1,903	2,680	22,500

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.11=U.S.\$1.00.

Consolidated Retained Earnings (For the Years ended January 31, 2006 and 2007)

Item	Period	Millions of yen		Thousands of U.S. dollars
		2005	2006	2006
Cash dividend paid		321,422	439,864	3,693
Bonuses to directors and Corporate auditors		—	—	—

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.11 = U.S.\$1.00.

Consolidated Statements of Changes in Shareholders' Equity

(Thousands of US dollars)

	Shareholders' Equity					Valuation and translation adjustments			Minority Interests	Net Assets
	Capital	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' Equity	Profit/Loss on deferred valuation of other securities	Foreign currency translation adjustment	Total		
Balance at January 31, 2006	43,654	43,210	92,792	△7,725	171,931	321	△1,713	△1,393	3,725	174,263
Changes during period										
Distribution of earnings	—	—	△4,142	—	△4,142	—	—	—	—	△4,142
Net income	—	—	16,089	—	16,089	—	—	—	—	16,089
Disposal of treasury stock	—	158	—	2,290	2,448	—	—	—	—	2,448
Acquisition of treasury stock	—	—	—	△18	△18	—	—	—	—	△18
Changes during period not related to shareholders' equity (net)	—	—	—	—	—	△28	3,614	3,586	818	4,404
Total changes during period	—	158	11,948	2,272	14,378	△28	3,614	3,586	818	18,782
Balance at January 31, 2007	43,654	43,367	104,740	△5,452	186,309	293	1,901	2,194	4,543	193,045

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.11=U.S.\$1.00.

Corporate Information

Corporate Data (As of January 31, 2007)

Company Name — Pigeon Corporation
 Address — 4-4, Nihonbashi-Hisamatsucho Chuo-ku,
 Tokyo 103-8480
 Phone +81-3-3661-4200
 FAX +81-3-3661-4320
 URL — <http://www.pigeon.co.jp>
 Established — August 15, 1957
 Paid-in capital — 5,199,597 thousand
 Fiscal year-end — January 31
 Business — Manufacture, sales, import, and export
 of baby and child care products, maternity
 items, women's care products, home
 healthcare products, nursing care products,
 etc.; operation of child-minding centers
 Employees — 963

Stock Data (As of January 31, 2007)

Shares authorized — 60million
 Shares issued — 20,275,581
 Number of shareholders (Includes odd-lot shares) — 7,356

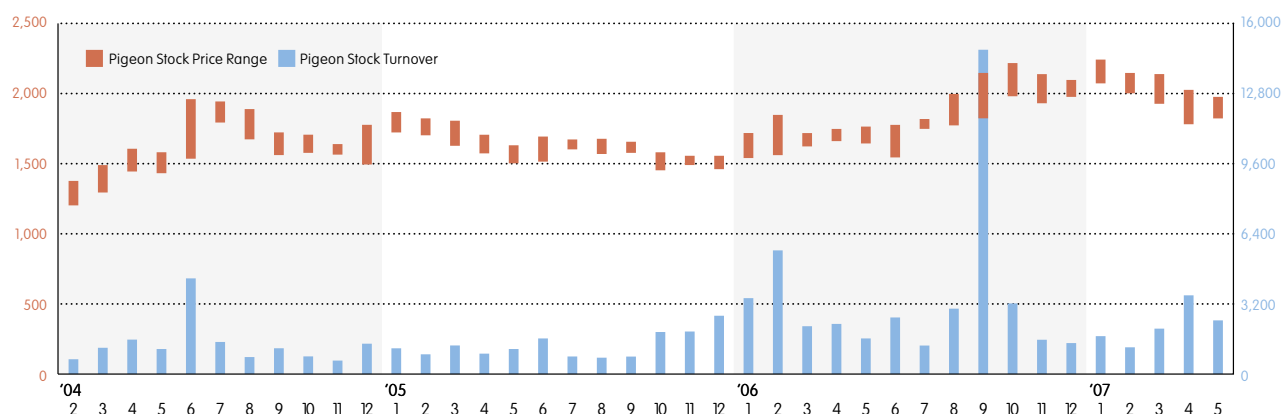
Board of Directors, Auditors, and Officers (As of April 27, 2007)

Executive Advisor Member of the Board — Yoichi Nakata
 Chairman and Chief Executive Officer — Seiichi Matsumura
 President and Chief Operating officer — Akio Okoshi
 Managing Director — Kazuhiko Ota
 Director — Takashi Kurashima
 Hisashi Katsuki
 Takashi Sakuma
 Standing Auditor — Fumio Irobe
 Katsumi Oyabu
 Statutory Auditor — Shigeru Nishiyama
 Shuji Idesawa
 Managing Officers — Isao Kosaka
 Yasushi Takashima
 Yasunori Kurachi
 Hiroki Yuda
 Kazuhisa Amari
 Tomoyuki Koizumi
 Shigeru Yamashita
 Eiji Akamatsu
 Koji Ishigami

Ten largest Shareholders (As of January 31, 2007)

Shareholder's Name	Share held (1000s)	Ownership (%)
Yoichi Nakata Japan	4,238	20.90
Japan Trustee Services Bank, Ltd. (Trust Account)	2,760	13.62
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,112	5.48
NikkoCity Trust and Banking Corporation (Trust Account)	1,108	5.47
The Bank of New York Europe Limited (Luxembourg), SA 131800	932	4.60
Morgan Stanley & Company, Inc.	610	3.01
Goldman Sachs International	590	2.91
The Chase Manhattan Bank N.A. London SL (Omnibus Account)	508	2.51
Pigeon Corporation Employees' Stock	434	2.14
The Bank of New York Treaty (JASDAQ Account)	382	1.89

Stock Price Range/Turnover of Common Stock (Thousands of shares)



PIGEON CORPORATION

(Security Code: 7956)

Head Office: 4-4, Nihonbashi-Hisamatsucho,
Chuo-ku, Tokyo 103-8480, Japan

TEL: 81-3-3661-4200

TEL: 81-3-3661-4188 (Investor Relations Department/Direct)

FAX: 81-3-3661-4320

URL: <http://www.pigeon.co.jp>



Printed in Japan